The Centre for
Cross Border Studies

MEDIA WATCH

25/03/2016 - 01/04/2016

29 March 2016

London's potential loss could be Dublin's gain in Brexit scenario

Ireland s services exports last year grew by 15% to a new high of 116.8bn.

This burgeoning sector relies heavily on the UK, which buys 20% of all our services output.

Many services exporters are reviewing their strategy ahead of a potential UK exit from the EU in a few months time.

Inevitably, the prospect of any trading partner moving outside the single EU market will create difficulties; this will be particularly the case for Irish exporters servicing their UK customers.

However, some sectors will gain market share globally, as UK competitors struggle with regulatory and non-tariff issues if they exit the EU.

In particular, Irish financial and insurance services are expected to gain, as a significant amount of trade currently booked in London is likely to leave if the UK exits.

The International Financial Services Sector (IFSC) is a generic term referring to Ireland s internationally trading financial and insurance services industries, and it employs 35,000 people directly in the Republic of Ireland, two thirds of them in the Dublin region.

It comprises 400 internationally- and Irish-owned **cross-border** financial services businesses, which operate in 1,000 corporate entities. Last year, companies within the IFSC exported 31bn in services, with 17% of this going to customers in the UK.

Ireland is the fourth-largest exporter of financial services within the EU.

More than 50% of the world s leading financial services firms have subsidiaries in Dublin, and will be anxious to use their bases here to offset any downside to trading through London, in the event of a Brexit.

The value of investment funds domiciled or administered in Ireland is now 3.2trn, and these funds are managed by 900 asset managers from 50 countries.

After the general election in the UK last year, London was ranked the world s leading financial centre, according to a detailed study of 86 cities. Dublin was ranked 46th, moving up six places.

Michael Mainelli, chairman of the think-tank Z/Yen, which produced the report, attributed London s better showing to reduced uncertainty following the surprise win for the Conservatives.

However, uncertainty over the outcome of the Brexit vote has brought turmoil to the London market this year.

Mr Mainelli highlighted Dublin, which had a hard time pulling away from the crisis .

There s a lot of confidence that Dublin is out there to grab business in wholesale financial markets, he said. He also said there was a view that the city would benefit if Britain voted to leave the EU.

A number of London s trading sectors will be under threat if the UK leaves the EU:

Foreign currency trading, where the vast majority of euro dollar trading takes place;

Investment banking, which takes advantage of its EU membership to passport banking services around the EU member countries, without having to have a fully-fledged local operation in each location;

The insurance sector, which writes business from London, again with a passport free facility across the EU;

The asset-management sector, where the EU single market is the most dynamic area of financial services and where London has been a major player.

In this latter sector, one particular **cross-border** product, called Ucits which stands for undertakings for collective investment in transferable securities has grown dramatically in recent years. London and Dublin are neck-and-neck as the domicile for Ucits, beaten only by Luxembourg, which, like Ireland, offers tax advantages.

In the event of Brexit, there would be strong pressure to move the euro-dollar foreign-exchange trading from London to the other major financial centres in Frankfurt and Paris, with Dublin also expected to see an increase.

Investment banking prospered enormously in London when the single currency was introduced in 1999 with the elimination of cumbersome, fragmented, **cross-border** regulations. This gain will be jeopardised by Brexit.

If insurance underwriters do not have the freedom to write **cross-border** business, as they now do, and have to set up local operations across the EU again, there will be competitive disadvantages for those located in London.

For those in the Ucits sector, the risk is even clearer; Brexit would push the UK portion of the business, which was worth more than 1trn last year, to Dublin or Luxemburg.

John Whelan is a leading consultant on international trade.

Source: Irish Examiner

31 March 2016

A Brexit would be a real disaster for the border economy - except the smugglers

THERE is always money to be made along a border, some legitimate and some not so legitimate. Life along either side of the border with Northern Ireland for many decades was full of stories, rumours and even myths about smuggling.

There were stories of cattle swimming across lakes and rivers to the other side of the border, pigs being sedated with Guinness while crossing by boat, coffins filled with contraband, false floors in vans and trucks.

State subsidies on livestock brought stories of people moving animals across the border at night for inspection, only to be brought back again the next day in an international merry-go-round spread over a few fields.

Back before large criminal gangs figured out how to wash the dye out of agricultural diesel using toxic acids, guys would even build a new hidden fuel tank in their car which was filled from inside the boot.

This left the original fuel tank disconnected from the engine and carrying the same pint of ordinary diesel for years in case they were ever dipped by customs.

The principles behind making money from a border are similar almost anywhere in the world. Put people in close proximity to each other but in different states and ingenuity will capture opportunity. Different jurisdictions have different levels of tax and excise, creating a price differential. Different currencies operated in towns beside each other but on either side of a border, also create price differences that can be exploited.

Different jurisdictions have different subsidies or rules, which create a market on the other side of the border, because a product is not available on one side or is subsidised more heavily.

In the case of partition and the border in Ireland, the opportunities have changed over the decades. In his book, '29 Main Street - Living with Partition', historian Dermot McMonagle chronicles life growing up in his native border town of Ballyconnell in Co Cavan.

In the 1950s Britain introduced the Agricultural Deficiency Payment System, which provided a wonderful opportunity for smuggling. "Ballyconnell became a resting station for cattle and pigs moving northwards as the new market conditions dictated. For cattle to qualify for payments or subsidies, heifers and steers were ear punched with a sharpened half-inch copper pipe to make them bona fide northern animals, and left to heal for a time."

He describes how pigs from different litters were all thrown in together, but sprinkled with Jeyes fluid to give them a common scent, to stop them fighting. "It rarely worked". New Zealand butter was available in Fermanagh for as little as 1/3d, while Killeshandra butter was available in Ballyconnell for 3/6d, McMonagle points out. There was very good money to be made. With Ireland and Britain's entry to the EEC in the early 1970s, opportunities for smuggling began to decrease. Animals might be smuggled to benefit from subsidies but the list of goods on which duty had to be paid dwindled.

Allowances on goods purchased for personal use were increased and many Southerners have stories about hiding goods bought across the border that they may have been allowed to bring across anyway.

The arrival of the single European market in 1993 effectively ended the border as a custom barrier to trade. But it hasn't done away with smuggling.

There may be a single market but different rules still create smuggling opportunities. The industrial scale criminal operations behind diesel laundering are costing the exchequer hundreds of millions of euro per year in lost excise and environmental cleanup. Many of those involved also make millions from cigarette smuggling.
But there are other tax differences to be exploited. The tax treatment of solid fuel has become the latest big money whizz. A carbon tax in the South creates an opportunity to smuggle across from the North. Vat in the South on solid fuel is 13.5pc. In Northern Ireland it is 5pc. Carbon tax adds (EURO)2.11 to a bag of coal in the South. In the North it is £0. The Irish Hardware Association, whose members have seen solid fuel sales fall, reported last year that a smuggler bringing in a 20-tonne truck of coal from Northern Ireland saves (EURO)1,195 in Carbon Tax alone. The Vat differential increases the evasion rewards to (EURO)2,005.

If so much illicit activity continues when both sides of the border are in a single European market, what will it be like if the UK decides to leave the EU? One of the great benefits of the peace process has been the free movement of people, as well as goods, **cross the border.** As a result regional economies in border areas can benefit from people moving to the other side, commuting to the other side or simply just passing through the other side as part of their work routine.

Back in the 1940s Southern citizens had to apply to the RUC for a "Document of Identity" to travel within the North. So much has improved since then.

Brexit advocates argue that Ireland and the UK can continue with a freedom of movement treaty after a Brexit, just as they had before joining the EEC. After a Brexit, both will still be sovereign independent states, but one will be subject to the rules, directives and wishes of its European counterparts.

The border in Louth, Monaghan, Cavan, Leitrim and Donegal will be the border with the EU.

It would be ironic to think that if customs posts and queues returned to the border, that so too would smuggling. Yet the history of the border shows that it is not fully "policeable".

New tariffs would increase the opportunities and therefore smuggling is likely to increase, not to mention the creation of new barriers it would present to the movement of people through possible delays.

It is also ironic that the First Minister in Northern Ireland, DUP leader Arlene Foster, is advocating a Brexit, given the likely impact it could have on agriculture and food, which employ 6pc of the working population in Northern Ireland.

The Republic accounts for a third of Northern Ireland services exports. Total exports to the South are around (EURO)1.8bn annually compared to (EURO)1.2bn in the other direction.

A Brexit could represent an enormous social and economic step backwards for the idea of the island economy.

Source: Irish Independent